

## Stock Performance

	1992	1993	1994	1995	1996
High	\$37.39	\$47.00	\$44.38	\$50.50	\$63.25
Low	\$28.21	\$34.19	\$38.75	\$39.63	\$49.00
Year-End Close	\$37.00	\$41.50	\$40.38	\$57.23	\$69.00
SBC Annual Total Return	20%	14%	1%	47%	2%
S&P Annual Total Return	8%	10%	1%	37%	23%
SBC Cumulative Total Return*	20%	39%	41%	106%	93%
S&P Cumulative Total Return*	8%	18%	20%	65%	100%

## Earnings Performance

	1992	1993	1994	1995	1996
Earnings Before Extraordinary Items (in millions)	\$2,455	\$1,589	\$2,777	\$2,958	\$3,199
EPS	\$ 2.74	\$ 1.76	\$ 3.84	\$ 3.22	\$ 3.45
Dividends Declared <sup>†</sup>	\$ 1.46	\$ 1.31	\$ 1.58	\$ 1.45	\$ 1.22
Dividend Growth	—	3.4%	4.2%	4.6%	5.2%
Annual Dividend Yield	4.6%	3.8%	3.8%	3.4%	3.4%
Weighted Average Shares Outstanding (in millions)	895.0	902.7	911.5	920.4	925.6

## Ownership Profile (pre-merger)

	1986	1991	1996
Institutional	38%	37%	43%
Individual	54%	56%	48%
Employee	8%	7%	9%

## Total Compounded Annual Return

	10-Year	5-Year	1-Year
SBC	16%	14%	6%
S&P 500	15%	15%	23%

\*Cumulative Total Returns are based on a starting point of 1/1/92.

<sup>†</sup>Dividends declared does not include dividends paid to Pacific Telesis shareowners.

B

S B C G R O W T H P R O F I L E 1 9 9 7

c a p i t a l s t r u c t u r e

C

## C Capital Structure



**SBC's financial strength will continue to be an important advantage as we pursue the most attractive growth opportunities in our industry.**

SBC's financial strength allows us to move quickly to seize growth opportunities.

Effective management of SBC's capital structure is key to success in an environment characterized by:

- Accelerating development of new technologies which may offer a competitive advantage in the marketplace;
- The potential for increased competition to create margin pressure;
- Considerable demand for new products and services;
- The emergence of new business opportunities and alliances as the information, entertainment and communications industries converge; and
- Expanding international opportunities.

### Financial Strength

(In Millions)	1992	1993	1994	1995	1996
<b>EBITDA</b>	\$7,786	\$6,796	\$8,774	\$9,128	\$10,965
<b>Free Cash Flow</b>	\$2,452	\$2,147	\$2,952	\$2,452	\$4,835

SBC's financial strength ensures that we have the flexibility to select, time and execute our strategies under changing market and competitive conditions. Our focus on investing in

projects which have the capacity to quickly generate excess free cash flow ensures that we will be able to maintain a strong, well-balanced capital structure.

### Capital Structure

(In Millions)	1992	1993	1994	1995	1996
<b>Total Debt</b>	\$13,980	\$12,388	\$12,681	\$13,619	\$13,985
<b>Shareholders' Equity</b>	17,479	15,181	13,487	8,443	5,981
<b>Book Capitalization</b>	30,939	27,750	26,088	22,062	19,966
<b>Market Capitalization (As of year-end)</b>	\$35,419	\$50,321	\$49,777	\$66,446	\$60,635

SBC's strong capital structure and balance sheet permit SBC to seize opportunities as market opportunities arise. The depth of this strength has been most recently illustrated by our merger with Pacific Telesis and our investments into Telkom South Africa, Taiwan, France and Switzerland, all of which have occurred during the first half of 1997. SBC financially engineers its investments to minimize dilution and

maximize the timing of free cash flow and return on investment. In the case of the Pacific Telesis merger, the transaction was engineered as a pooling transaction with Pacific Telesis' dividend being reduced and certain capital expenditures scaled back, providing an important example of the steps SBC will make to ensure that our balance sheet and capital structure do not become constrained.

At current debt ratings and with associated rating agency restrictions, our capital structure also provides access to more than \$1 billion in additional debt capacity per year, giving us the leverage to make other major acquisitions or a string of acquisitions if appropriate opportunities emerge.

With free cash flow enhanced by the Pacific Telesis merger beginning in 1998, a targeted debt ratio in the mid 50-percent range and an EBITDA/interest coverage ratio of over 10 times, SBC is expected to continue to receive credit ratings that ensure access to low cost of debt.

#### 1996 Financing Flexibility

Short-term and variable rate debt as a percent of total debt . . . . . 17.6%

Long-term Debt Maturing in 5 years . . . \$2.41 billion

Average life of long-term debt . . . . 16.9 years

#### 1996 Financing Capacity

Debt Ratio . . . . . 57.9%

EBITDA Interest Coverage . . . . . 12.2x

Free Cash Flow . . . . . \$1.935 billion

#### Debt Ratios

	1992	1993	1994	1995	1996
Weighted Average Cost of Debt	4.8%	4.8%	4.8%	4.8%	4.8%
Debt/Market Capitalization	45.3%	45.3%	45.3%	45.3%	45.3%
Debt/Market Capitalization	37.7%	25.0%	25.4%	20.5%	21.5%

#### Coverage Ratios

	1992	1993	1994	1995	1996
Pre-Tax Interest Coverage	4.8x	5.0x	5.0x	5.7x	5.7x
EBITDA Interest Coverage	7.3x	8.2x	9.4x	9.6x	10.0x
Total Debt to EBITDA	1.7x	1.9x	1.4x	1.5x	1.2x

To manage our cash more effectively and leverage the cash flow strength of our businesses, SBC consolidated Pacific Telesis' treasury function and will issue long-term debt only through SBC Communications Capital Corporation, Southwestern Bell Telephone Company and Pacific Bell

Telephone Company. If opportunities warrant, the parent company, SBC Communications Inc., will also issue debt.

While SBC oversees the overall capital structure of the entire company, the internal leverage of our subsidiaries generally reflects the inherent risk of each business.

#### Debt Ratings (May 1997)

	SBC Communications and SBC Communications Capital Corp	Southwestern Bell Telephone	Pacific Bell
Senior Debt			
SBC	AA-	AA-	AA-
Moody's	A1	A1	A1
Duff & Phelps	AA-	AA-	AA-

SBC GROWTH PROFILE 1997

---

m a n a g e m e n t   f o c u s



## D

## Management Focus



**SBC's management approach is focused on growth. We begin with an understanding of what our customers want, and then let marketing needs define network, customer service and external affairs strategies.**

SBC's growth-focused management approach is an important advantage in more competitive markets.

#### Managing for Growth

In the 13 years since divestiture, SBC has transformed itself from a traditional local network operating company to a company focused on growth. This focus is apparent:

- In our proven capabilities in the marketing of vertical services, which has driven impressive top line revenue growth;
- In our timely and strategically driven acquisitions of domestic and international wireless-based businesses;
- In our selective investment in promising international privatizations;
- In our strategic alliances with technology-leading vendors;
- In our willingness to divest businesses or strategies that no longer meet our financial and strategic objectives;
- And, most recently, in our merger with Pacific Telesis.

At our core telephone company-based operations, SBC's emphasis on growth has driven the development of an industry-leading marketing organization that can both expand the telecommunications market and influence the customer's choice of our products and services over the competition.

Our growth strategies start with our marketing organization's knowledge of what customers need and expect. In turn, marketing strategies guide the deployment and enhancement of our networks, the depth and breadth of our customer service and operations and the public policy agenda of our External Affairs organizations.

SBC believes this growth-focused organizational structure is a significant competitive advantage as markets open to greater competition and one of the major ways SBC will add value to Pacific Telesis' operations.

We also believe we are ahead of any other telecommunications company in creating and executing this approach.

#### Managing in More Competitive Markets

Because the fully competitive market is significantly more demanding than a regulated or duopolistic environment, SBC places some of its most experienced and best performing management personnel in our most competitively critical, value-generating markets. We also utilize computer-based competitive simulation exercises, comparable to those offered at the U.S.'s top graduate business schools, to train managers to recognize and respond to an array of competitive challenges.

Operational managers execute strategies designed for their local markets.

#### Employees

	1994	1995	1996	1997
Total SBC	10,000	10,000	10,000	10,000
Southwestern Bell	4,000	4,000	4,000	4,000
Pacific Bell	4,000	4,000	4,000	4,000
Northern Bell	2,000	2,000	2,000	2,000
Total Telephones	4,000	4,000	4,000	4,000
Total Wireless	4,000	4,000	4,000	4,000

More broadly, our entire employee workforce is charged to find new ways to maximize revenue opportunities, improve operational efficiencies and to maintain and strengthen SBC's excellent reputation for high quality customer service. Employee training utilizes competitive awareness programs that demonstrate how employees can help forge stronger relationships with customers and communities and build understanding of SBC's commitment to a fully competitive marketplace.

We are also helping our employees to develop the attributes – a talent for risk taking, a bias toward action and the predisposition to stimulate and embrace change – and the cross-functional skill sets they need to succeed in the competitive marketplace.

Because each market we serve is unique, our operational managers are given the flexibility to execute the strategies they believe best fit the demands and opportunities of their individual markets. But a more competitive environment demands efficient use of resources. As a result, our operational managers increasingly draw upon operating company staff resources at SBC Communications, Southwestern Bell, Pacific Bell and Southwestern Bell Mobile Systems headquarters to support the growth

of their markets in the face of heightened competition. These staff members provide support in the following major areas.

#### Ⓐ Strategic Assessment

Staff personnel monitor competitors' actions across all of their markets, in order to better serve our customers, anticipate new pricing strategies, determine the resources the competition can deploy in a specific market, and more effectively identify and respond to the competition's strengths and vulnerabilities.

#### case in point

Our strategic planning organization studied Sprint Spectrum's rollout in the Washington D.C. market, which helped us improve and differentiate our service when they later entered Texas markets.

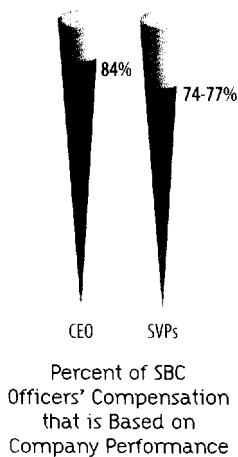
#### Ⓑ Productivity and Cost Analysis

Staff personnel involvement helps reduce the costs of local market operations through centralized purchasing, efficient supply chain management, and unified long-term network planning that leverages the buying capacity of the entire corporation.

#### case in point

Pacific Bell's Plug-in Asset Control Environment (PACE) team developed an innovative inventory control system which dramatically improved Pacific Bell's purchase and storage of Plug-ins. Plug-ins are a basic electronic component of a LEC's network, enabling voice and data

D



Successful mergers require that managers move quickly to realize value.

transmission, calling options and other features. The system developed by Pacific Bell — the only one of its kind in the telecommunications industry — uses a “sparing model” to determine the number of extra plug-ins needed in any given office and utilizes bar codes and scanners to automate the entire plug-in process. The system reduces inventory requirements while ensuring that technicians will always have a working replacement, where and when they need it.

#### © Unified Corporate Image

Staff personnel advance a unified corporate image program and synchronized market advertising campaigns which local General Managers can use to gain customers, build community relationships and attract highly skilled employees.

During 1997, Southwestern Bell launched a new brand marketing communications program anchored by a new positioning platform and tagline, “Your Friendly Neighborhood Global Communications Company.” The program is backed by a series of pledges that describe how we will do business. While many of the pledges reflect the way we have always treated our customers, the program makes public our commitments to our customers and establishes a clear point of differentiation with our competitors.

#### Managing the Merger Process

Successful mergers require that senior management quickly integrate corporate cultures, realize the value inherent in combining resources, and remain focused on the timely execution of existing growth-generating strate-

gies. Mergers of the scale of SBC and Pacific Telesis are also catalysts for change, providing a unique opportunity to readdress systemwide organizational and operational issues. SBC developed an integration process designed to ensure that the merger with Pacific Telesis makes SBC a stronger, faster-growing company.

SBC organized over 50 functional teams charged with performing a complete reevaluation of each of our business processes to identify new opportunities for growth, leverage our larger scale, reduce costs and eliminate redundant operations. The teams were small in size and were balanced between SBC and Pacific Telesis employees; thus, the teams also represented an important first step in integrating our corporate cultures. In this effort they also identified best practices to improve performance throughout SBC's combined operations.

While identifying value creation is the first step in the merger process, SBC's success hinges on implementation. In evaluating the findings of the integration teams, senior operational managers had a bias toward action. Reinforcing this preference is the fact that the operational senior manager heading each team's effort is also responsible for executing the value creating strategies in their operational area. Initiatives targeting revenue growth opportunities, operational redundancies and economies of scale are expected to be implemented within the first year. Longer-term projects, such as adopting

Senior managers evaluated merger teams' finding with a bias toward action.



SBC's compensation system creates incentives to grow shareowner value.

best practices in network design and operational support functions, are targeted for implementation in the second and third years. As the emphasis shifted from identifying to implementing value opportunities, a much smaller merger process team now monitors progress to ensure that all opportunities to maximize value are realized over the three-year time horizon.

#### EBITDA Millions

	1994	1995	1996
<b>SBC</b>			
<b>Southwestern Bell</b>			
<b>Pacific Bell</b>			
<b>Total Wireless*</b>			

\*Pacific Bell Mobile Services to be included with start of operations in 1997.

SBC's size and scope will enable our purchasing managers to negotiate more favorable terms and pricing on new equipment. By combining systems and core functions of our businesses, SBC will be able to more effectively leverage our investment and improve overall return

#### Managing Our Cost Structure

With the elimination of rate of return regulation, and with the size and scope that the Pacific Telesis merger provides, SBC can now more advantageously adjust and lower our cost structure so that we can be positioned to compete effectively against all companies entering the telecommunications market.

on invested capital. Such economies of scale apply as well to research and development activities and the development of new products, services, and systems. By spreading SBC's fixed cost over an expanded base, SBC's per unit cost will be lower relative to many of our competitors.

#### EBITDA/Subscriber/Month

	1994	1995	1996
<b>Southwestern Bell†</b>			
<b>Pacific Bell†</b>			
<b>Total Wireless*</b>			

†Subscriber count based upon primary residential access lines plus business access lines.

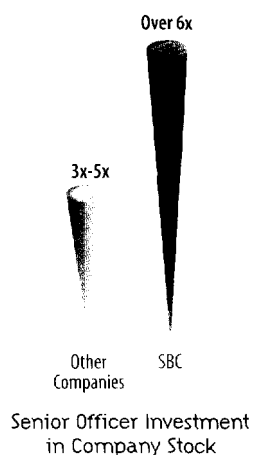
\*Pacific Bell Mobile Services to be included with start of operations in 1997.

In addition to these savings and the additional value generating opportunities identified through merger integration process, SBC also continues its focus on margin management in three key areas:

- ① **Shifting the costs from back office operations to customer contact areas.**

To continue our strong revenue trends as we

face more competition in our markets, SBC is directing more resources to marketing, advertising, and customer care and support. As the same time, we are reducing back-office, administrative and support cost components of our businesses where it doesn't degrade customer care. For example, consolidating functions such as customer service



bureaus and operator services has allowed us to reduce staff while maintaining and improving service.

**② Converting SBC's cost structure from fixed to variable, where appropriate.**

Through the use of part-time and temporary workers and outsourcing, SBC is creating a more variable cost structure which allows:

- Quicker management response to changing market and economic conditions.
- Greater control over margins during downturns in revenue growth.

**③ Investing capital where significant improvement in operating expense savings can be realized.** In addition to the opportunities identified by the merger integration teams, SBC intends to increase capital expenditures for outside plant and feeder rehabilitation in order to lower operating expense by reducing the number of trouble reports and service orders.

**Our Compensation System Creates the Unifying Thread**

SBC will continue to implement a compensation system that is heavily performance-based in order to:

- Reward employees for meeting specific financial and operating objectives that are related to long-term returns to shareholders.
- Encourage SBC stock ownership. SBC employees think like shareowners because they are shareowners.

At every management level in SBC, a significant portion of total compensation is at risk, tied to the achievement of the company's specified financial and operating goals. Consistent with these objectives, all SBC management employees receive stock options as part of their compensation. In a growing but increasingly competitive telecommunications industry, SBC believes our compensation system is an integral component of our ability to align management and employee interests toward the mutually beneficial goal of creating long-term value for our shareowners.



## E

## Public Policy



**SBC's External Affairs organization has played a critical role in enabling SBC to meet its legislative, regulatory and marketing objectives. We are extending this approach to our new Pacific Telesis markets.**

The transition to open and competitive telecommunications markets is a complex and multi-staged process, involving a broad array of interests and levels of government. Key issues at the federal level include FCC rule-making on Interconnection, Universal Service and Access Reform, as well as its implementation of the process outlined in the Telecommunications Act of 1996 for RBOC entrance into long-distance. At the state level, legislators and regulators play important roles in designing and implementing the conditions for competitive entry and adjusting rate structures so that prices more closely reflect our costs. The policy-making processes at each level are complex. Participants in the process include a broad array of telecommunications companies, as well as regulators, legislators and interest groups, and at stake are the interests of customers, communities, politicians, regulators, employees and shareholders.

Clearly, the importance of these public policy makers' decisions requires the active participation of companies like SBC. At SBC, our External Affairs organization plays a pivotal

role in proactively executing our company's regulatory and legislative objectives and helping ensure that SBC achieves the ultimate objective of a balanced, fair, open marketplace in which to market and sell our products and services.

#### **SBC's Regulatory and Legislative Accomplishments**

##### **PACIFIC BELL**

Pacific Bell has had an active role in helping reshape the telecommunications marketplace in California. The largest of SBC's states is arguably also the furthest along in introducing open market concepts.

The California Public Utilities Commission (CPUC) adopted a new regulatory framework in 1996 that included price cap regulation. In 1995, the CPUC greatly improved regulation by suspending the productivity offset factor through 1998. Further examples of regulatory decisions that continue the transition to a fair and more competitive telecommunications marketplace in California include:

- CPUC adoption of local competition rules which include a Universal Service plan. The Universal Service decision was

announced by the CPUC in October 1996 and established a statewide fund for which Pacific Bell's portion is \$305 million.

- Adoption by the CPUC of a resale discount of 17 percent.
- In an April 1997 order, the CPUC dismissed challenges to recovery by Pacific Bell of post-retirement benefits other than pension costs. Also in April, the CPUC adopted an intraLATA presubscription implementation plan that eliminated marketing restrictions recommended by the California Administrative Law Judge (ALJ).
- The CPUC approved the merger of SBC and Pacific Telesis on March 31, 1997, with significantly less adverse financial impact than recommended by the California ALJ.

#### SOUTHWESTERN BELL

##### Incentive Regulation

*In all of Southwestern Bell's five states:*

- Rate base rate of return regulation replaced with a form of price regulation.
- No earnings regulation.
- Pricing flexibility established that permits the company to change prices for discretionary and competitive services on an expedited basis. For example, in Arkansas, to change prices for discretionary or competitive services Southwestern Bell need only file a tariff with the PSC and the rate change is effective immediately.

##### Reduced Regulation

*In all of Southwestern Bell's five states:*

- Expedited approval process for new services. Virtually all new services are considered discretionary and therefore have some form of streamlined approval process.

- Promotional pricing and individual case basis pricing are permitted.
- Competitive issues such as interconnection, resale and unbundling are consistent with federal legislation.

*In the majority of Southwestern Bell's five states:*

- Rates for basic service are essentially capped at the current rate for a specified period, usually three years. After a three-year period, rates may be adjusted.
- When a competitor offers basic local service in a particular geographic area, Southwestern Bell obtains pricing freedom in that area.

##### Universal Service

- In all states except Texas, a universal service fund was established to which all telecommunications providers must contribute. Also, as part of universal service, basic local rates in Kansas are "rebalanced."

##### Infrastructure Commitment

- In several states, Southwestern Bell has committed to deploy interoffice fiber, SS7, basic rate ISDN capability and broadband to schools, hospitals, state and local government.
- Discounts are offered to schools, hospitals, state and local government offices for broadband services.
- In Kansas, basic rate ISDN will be priced to stimulate the residential market.

##### Long Distance Entry

- The Oklahoma Corporation Commission recommended FCC approval of SBC's 271 application. Oklahoma is one of the first state regulatory agencies in the country to recommend approval of an RBOC's pending application to provide long distance.

## Stakeholders

Arkansas	California	Kansas	Missouri	Nevada	Oklahoma	Texas
						\$3,901

\*Reflects shareowners of record.

### SBC's Approach to External Affairs

These accomplishments flow from the manner in which SBC manages its public policy process and organizes its External Affairs functions. The key attributes of SBC's approach include:

- Ⓐ SBC recognizes that legislative and regulatory actions are closely intertwined.

#### case in point

SBC believes that legislation should clearly define the rules of competition and regulation, so that regulatory and administrative agencies can effectively implement these legislative policies. Consequently, SBC's External Affairs operations seek regulatory reform through federal and state legislative bodies, as well as continuing its more traditional role of working with state and federal regulatory commissions.

- Ⓑ SBC's External Affairs organization is separate from telephone company operations.

#### case in point

In 1993, SBC reorganized to separate External Affairs from operational management. This change achieved two important objectives: it ensures that operational managers respond to market forces, not to extraneous considerations; and it enables SBC to maintain consistent and well-coordinated legislative and regulatory positions, a particularly difficult – and important – task in a rapidly

changing regulatory environment. With all External Affairs personnel reporting to SBC's senior regulatory officer, the company can most effectively identify and pursue the course of action that maximizes shareowner value.

- Ⓒ SBC has an extensive locally-based external affairs infrastructure which enables the company to mobilize local support.

#### case in point

It is characteristic of SBC's approach that the establishment of External Affairs operations in each of California's major cities was one of the first organizational initiatives following the merger. With the predominantly local focus of SBC's domestic businesses, local alliances are crucial. Within Southwestern Bell's five-state region, External Affairs Managers (EAMs) perform the key roles of educating local constituencies about our interests and perspectives and building grass roots support for our positions.

Evidence of the importance of this approach was that shortly after the merger announcement, SBC and Pacific Telesis EAMs met with a broad range of California consumer and community interest groups to discuss merger issues and reach a mutually beneficial agreement. Gaining the support of over 100 groups was crucial in the early stages of the regulatory proceedings and was clearly a key element in SBC's ability to secure acceptable merger approval from California regulators.

**④ External Affairs Managers play an instrumental role in canvassing and gaining support for our marketing department's roll-out of new products.**

**case in point**

Because of their understanding of our local customers and the relationships our EAMs maintain with heavy telecommunications users, our External Affairs organization can help gather support for SBC's marketing organization's efforts to introduce new products. SBC's Local Plus offering in the Dallas market is an important example of this cooperation. By combining marketing's research to determine if our customers would buy – and in some cases spend a little more for – a truly flat-rate, unlimited usage product with External Affairs' ability to get interested customers to sign a petition supporting the product, SBC was able to launch this new product despite the objections of the long-distance companies.

**⑤ SBC's External Affairs Managers tap a broad range of resources in pursuing public policy objectives.**

**case in point**

Effective legislative and regulatory strategies rely upon the support of a wide variety of constituency groups. Thus, in addition to their work with local groups, EAMs also work closely with other constituencies, including employees, retirees and shareowners, as well as with trade associations and, when appropriate, other telephone companies. Local EAMs also coordinate closely with SBC's national legislative/regulatory managers, cooperating in lobbying efforts and sharing strategic information.

**How the External Affairs Department is Organized**

At the state level the EAMs are assigned a geographic territory in which to develop and build relationships with stakeholders and customers. In addition, EAMs also have responsibility for certain constituencies, which include:

Minorities	Seniors
Disabled	Education
Health Care	Economic Development
Government	

E

EAMs meet with and understand these groups' special needs and help educate them as to why it is in their best interest to support a particular SBC legislative or regulatory platform, or even a potential consumer product. SBC's EAMs have been especially successful in activating constituency groups, along with SBC's employees, to make sure legislators and regulators know what our consumers and communities really want.

With the telecommunications marketplace entering open competition, a number of challenging public policy issues remain. At the federal level, still to be resolved are the mechanisms for determining the costs of universal service and how universal service will be funded and supported. Also at issue is how the significant cost of local number portability will be recovered.

In most states, the rules that govern access and universal service policy remain undecided, and cost models must be developed, with rate rebalancing a key issue. Finally and most importantly, SBC's interLATA long-distance (Section 271) applications will need to be reviewed.

In these matters, SBC will continue to utilize our External Affairs organization to help educate our stakeholders on the implications of these issues and chart a course that is positive to SBC shareowners, as well as our customers and employees. By pursuing these efforts, SBC's External Affairs organization plays an important role in trying to shape the transition to a more open and fair competitive marketplace.



Subject	Arkansas	California	Kansas	Missouri
Price Cap Formula	Price Caps with no sharing	Benchmark ROR is 11.5%. 50/50 sharing above 11.5% 30% ratepayers/70% shareowner above 15%	Price Caps with no sharing	Price Caps with no sharing
Local Service Provider Agreements	16, including Brooks, ALLTEL	26, including AT&T, MCI and Sprint	18, including Sprint and Brooks	19, including MFS and Brooks
Unbundling	Rates and elements adopted.	Interim rates approved. Permanent rates for unbundled network elements and resold services expected January 1998.	Interim rates approved. Cost docket pending.	Permanent rates pending.
Resale Discounts	Per AT&T arbitration - 14.5%	Per commission and arbitrated agreements - 17%	Per Sprint arbitration - 14.9% Per AT&T arbitration - 21.6%	Per AT&T/MCI and MFS arbitration - 20.32%
Universal Service	All telecom carriers contribute proportionately based on intrastate retail service revenues. Surcharge may be passed on to customer to recover charges. Arkansas USF implementation rules pending.	Rate subsidies in high cost areas financed by a 2.8% end-user surcharge.	All telecom carriers contribute based on intrastate retail revenues. Assessment for Kansas USF may be passed through to customer.	All telecom companies must contribute based on intrastate retail service revenues. Essential services and high-cost areas must be defined.
Basic Rates Bus. (1-party Metro) Res. (Metro)	\$33.61 (flat rate) \$16.31 (flat rate)	\$10.32 (measured) \$11.25 (flat rate)	\$25.80 (flat rate) \$12.05 (flat rate)	\$33.55 (flat rate) \$11.35 (flat rate)

Subject	Nevada	Oklahoma	Texas
Price Cap Formula	Price Caps with no sharing	Price Caps with no sharing	Price Caps with no sharing
Local Service Provider Agreements	6, including Brooks	20, including Sprint and Brooks	50, including AT&T, MFS and Sprint
Unbundling	Cost proceeding in process.	Interim rates approved. Cost docket pending.	Contract rates approved. State Commission cost proceeding pending.
Resale Discounts	Business 13.5% Residence 10.37%	19.8%	Per consolidated arbitration - 21.6%
Universal Service	None	All telecom carriers contribute based on intrastate retail revenues.	Structure to be determined in rulemakings throughout 1997 and USF to be implemented in 1998.
Basic Rates Bus. (1-party Metro) Res. (Metro)	\$22.00 (flat rate) \$10.75 (flat rate)	\$43.18 (flat rate) \$14.34 (flat rate)	\$28.25 (flat rate) \$11.05 (flat rate)

Note: Information as of June 20, 1997

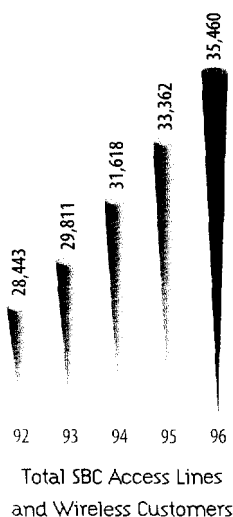
S B C G R O W T H P R O F I L E 1 9 9 7

---

s t r a t e g i e s

## F

## Strategies



#### Five Year Projected CAGR Economic GSP/GDP Growth

Southwest	2.6%
Texas	2.7%
California	2.9%
Nevada	5.5%
U.S. GDP Growth	2.2%

### Overall Strategic Considerations

#### SBC's Core Business Operations Objectives

- Increase revenues by expanding product offerings and penetration.
- Improve productivity.
- Manage our cost structure.
- Invest capital prudently.

#### SBC's Core Competitive Attributes

- Breadth of services.
- Expansiveness of network reach and capacity.
- Range of distribution channels.
- Experience of sales and service representatives.
- Depth of customer support.
- Quality, reliability and timeliness of customer service.
- Brand reputation and recognition.
- Tactical technology innovation.

- Close ties to local communities.
- Availability of capital.
- Performance and stock-based EVA management system.

#### Initiatives to Tap SBC's Rapidly Growing New Revenue Streams

- Introduce ADSL.
- Expand Internet/Intranet transport service.
- Introduce home security.
- Enhance messaging services product line.
- Expand fax/messaging services.
- Grow ISDN, Frame and Cell Relay base.
- Provide digital wireless services: short message service, call-forwarding.
- Maximize local, long-distance, Internet service offerings in Cellular One markets.
- Offer long distance when FCC approval obtained.

#### SBC Communications

(In Thousands)

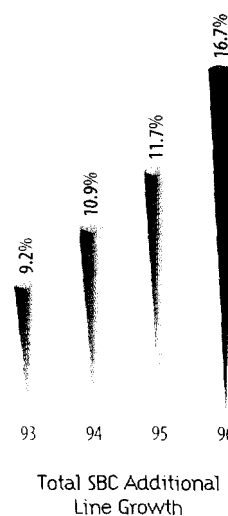
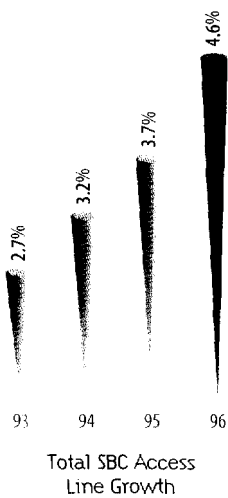
#### Total SBC Access Lines

#### % Growth

1992 1993 1994 1995 1996

#### Characteristics of Incumbent Local Exchange Markets (Southwestern Bell, Pacific Bell, Nevada Bell)

- Four of the top 10 U.S. metropolitan markets.
- Two states expected to lead U.S. population growth over the next 10 years.
- Headquarters of 170 of the Fortune 500 companies.
- Great ethnic diversity, with ties to Mexican, South American and Asian markets.
- Total size of local service markets: \$9.2 billion.
- Total size of intra- and interLATA long-distance market: almost \$11 billion.
- Strong demand for full-service provider with powerful and trusted brand names.
- Intense and expanding competitive presence.
- Interconnection agreements signed with major IXC's and competitive local exchange companies (CLECs).



#### Nature of Expected Residential Market Competition

- Competition initially will be largely resale, followed by unbundled network and facilities-based competition.
- Major full service providers will migrate to their own facilities-based networks when customer base achieves scale and it becomes more economical to invest capital for network infrastructure.
- Niche resellers will continue to exist and create potential for pricing pressure in distinct market segments.
- Competitors will seek high-volume/high-value customers; these customers are somewhat dispersed and difficult to target.

#### Nature of Expected Business Market Competition

- Due to density in major market areas, there will be a combination of reselling, unbundling/rebundling, and facilities-based competition.
- CLECs may try to broaden their product lines in order to compete more effectively against full-service providers.
- IXC's will seek to lock-in customers with long-term contracts.
- Margins will be pressured, especially in the large business segment.
- In the small and medium business markets, customer decisions will be based primarily on how the product, service or package adds value to their existing products; price will be a secondary issue.
- Large businesses will continue to prefer to manage their own networks and seek more open access. They will tend to be most demanding and costly to serve.
- Small and medium businesses will rely heavily on network consulting, value, and service quality, timeliness and reliability.

#### SBC's Incumbent LEC Residential Market Strategies

##### Understand our Customers and Gain Awareness and Support for Our Products

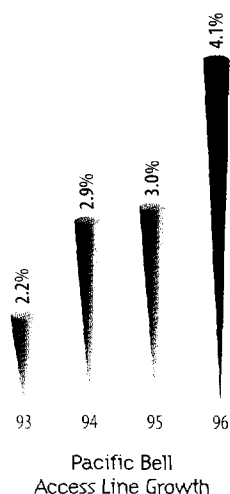
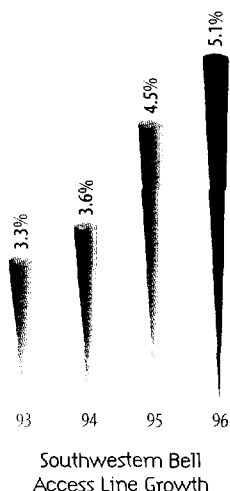
- Assess market trends and customer needs.
- Research needs, market test our ideas and prime the markets for our products.
- Educate communities about our products and build grass roots support.
- Utilize our more than 100,000 employees as ambassadors, not only to represent the image of our company but also through their community involvement to encourage customers to choose our products.

##### Differentiate our Products and Services from the Competition

- Continue to accelerate the roll-out of new products and services that meet our customers' needs.
- Leverage our comprehensive knowledge of our customers, markets and local communities to design packages tailored to our customers' lifestyles and needs.
- Ensure that our products are simple to find, buy and use.
- Utilize creative advertising that capitalizes on our brand reputation and reinforces SBC's key attributes of stability, dependability, capability, and localness.
- Communicate a customer-focused approach centered around pledges to treat our customers with respect.

##### Grow Our Customer Base and Revenue Streams

- Become the customers' first choice full-service provider.
- Maintain and improve the quality of our products and services
- Sell our products and services directly and through retail stores, specialty chains and agents.
- Create a stronger bond with our most valuable customers.



- Support the wholesale distribution channel.
- Expand penetration of all vertical service products, with special emphasis on additional lines, Internet access, usage-based products and Caller ID.

#### *Competitive Assets:*

- Because we have been the local exchange provider, we know our markets and customers better than the competition.
- With over 28,000 service representatives, 16,000 vehicles and almost 6,000 build-

ings, our employees have more contact with current and potential customers.

- Our brands are well respected and reinforce a trusted relationship with consumers.
- Our customers already know we provide excellent products and services.
- We are focused on the needs of our local customers and not on a nationwide customer base.

#### SBC Residential Access Line Information

(In Thousands)	1992	1993	1994	1995	1996

#### **SBC's Incumbent LEC Business Market Strategies**

##### **Better Serve Our Most Valuable Customers**

- Create a formidable National Accounts Sales team committed to servicing large business customers located in our seven-state region.
- Target and educate small and medium business customers on how to increase profitability with our products and services.
- Standardize some of our business products to reduce customization costs.
- Utilize the Lucent partnership arrangement to be there to sell our products and services when the customer is deciding to purchase CPE and configure their internal networks.

##### **Differentiate Our Products and Services from the Competition**

- Meet the needs of the business market through our abilities to offer a full array of services, particularly long distance, and to construct more efficient networks with the lifting of interLATA restrictions.
- Address the greatest need of our small and medium business customers — their current and future telecommunications

infrastructure — through solutions-based selling.

- Maximize the use of our networks.
- Provide a single point of contact.
- Offer innovative solutions.
- Extend discounts based on the total value of the customer.
- Provide network services that offer better quality and reliability.
- Ensure easy access to timely customer support.
- Attain superior automation, computerized pricing, and computer-aided training customized to specific products and market segments.

##### **Grow our Customer Base and Revenue Streams**

- Minimize time-to-market for new product offerings.
- Increase the size of our sales force (through the Lucent partnership) and target it more effectively.
- Focus on key industry segments — such as healthcare, financial services, and government accounts — that are highly dependent on telecommunications.

**Incumbent LEC Strengths:**

- Breadth of services
- Quality of service
- Responsiveness of our customer service operations
- Reputation and experience in offering local service
- Size and experience of our sales force
- Local market presence
- Quick, high-quality deployment of new services

- Provide packages like Start-up Kits or ISDN Turbo Access tailored to specific needs of small and medium businesses.
- Utilize SBC's employee-based Ambassador Program to build a stronger bond with small and medium businesses.

- Utilize Yellow Page distribution channels to sell a broader array of SBC business products.
- Integrate existing information systems to enable our sales representatives to know our customers better and suggest additional SBC products and services that address their business needs.

**SBC Business Access Line Information**

(In Thousands)	1992	1993	1994	1995	1996
	32,000	32,700	32,500	34,400	

**SBC's Wireless Strategies****Market Characteristics**

- Wireless customers are typically high-value telecommunications service customers who purchase significant amounts of local, long-distance, and Internet service.
- Increased competition has stimulated demand for wireless services.
- New products and services will stimulate usage.
- New technologies are being developed to reduce fraud.
- New technologies under development will improve capacity of wireless networks.
- Significant customer growth potential still exists; wireless providers will need to focus on growing the market and avoid the costs of "stealing" market share.
- Wireless providers will pursue varying strategies: some will focus purely on wireless service offerings, others will try to offer a full array of local, long-distance, and wireless service through resale agreements.

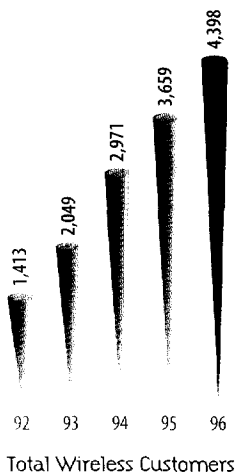
**Nature of Competition**

- Incumbent cellular operators will have a near-term advantage in service coverage until PCS providers fully build out their networks and obtain appropriate roaming agreements with other carriers.

- In highly dense markets PCS providers have a short-run capacity advantage until significant subscriber levels test the quality of their network architecture and/or cellular providers implement digital upgrades.
- The significant capital costs of infrastructure buildout may limit the ability of PCS competitors to offer significant discounts over incumbent cellular providers for extended periods.
- It may be difficult for PCS providers to offer economic incentives that capture the agent-based distribution channel from incumbent wireless providers.
- Efforts to maintain high-value customers will stimulate new packaging plans, discounts, and "reward" programs which can have a significant impact on margins if not carefully managed.

**Cellular One Wireless Strategies**

- Maintain our primary focus on growing the customer base and serving the needs of our wireless customers.
- Attract new wireless customers by offering long-distance service.
- Promote local landline service to those customers who will also buy wireless and long-distance service.
- Closely manage churn.



**SBC Wireless Strengths:**

- Better prepared for competition
  - Experienced wireless management team
  - Significant brand recognition
  - Recognized as a technology leader by customers
- Continue to market prepaid wireless service to introduce a broader range of customers to Cellular One.
  - Leverage our extensive agent distribution channel, and incorporate direct and retail channels where cost effective.
  - Continue to deploy IS136 digital service where a digital service offering will provide a significant marketing advantage and migrate high usage customers to digital service.

**Southwestern Bell Mobile Systems Wireless Strategies**

- Pursue a dual strategy of growing wireless customer base and making wireless an integral element of SWB's one-stop shopping strategy.
- Maximize use of SWB's direct distribution channels to sell wireless service.
- Provide combined local and wireless billing.
- Support a specialized sales force to market local and wireless service through telephone company offices.
- Build out the Oklahoma PCS market with TDMA technology to provide better coverage.
- Closely manage churn.
- Continue to market prepaid wireless service.
- Improve customer activation processes through Phone in a Box.
- Implement advanced fraud protection technology.
- Leverage brand names.
- Continue to deploy IS136 digital service where a digital service offering will provide a significant marketing advantage; migrate high-usage customers to digital service.

**Pacific Bell Mobile Services Wireless Strategies**

- Deploy quickly in all major markets.
- In the short run, focus primarily on building wireless customer base.
- Develop incentive plans to encourage Pacific Bell sales representatives to aggressively market Pacific Bell Mobile Services.
- Leverage the Pacific Bell brand and the breadth of Pacific Bell's distribution channels.
- Target high-value wireless customers.
- Maximize the benefits of Pacific Bell's digital network and capitalize on the capacity and quality problems of our competitors in California's major markets.
- Leverage statewide PCS coverage and California-based customer focus.
- Continue to improve the quality of the network.
- Place considerable emphasis on providing Pacific Bell customers with the level of service quality they are used to receiving.
- Seize opportunity to leverage Pacific Bell Mobile's lower cost structure and challenge above industry-average market pricing.

**How SBC will Differentiate Our Service from Competitors**

- Provide better quality and coverage.
- Implement Radio Frequency Fingerprinting to protect against fraud.
- Provide a superior level of customer service.
- Leverage SBC's reputation as a technology leader in wireless services.

<b>Residential Primary Lines</b>	<b>8,057</b>	<b>8,208</b>	<b>8,332</b>	<b>8,468</b>	<b>8,595</b>
% Southwestern Bell Growth		1.9%	1.5%	1.6%	1.5%
% of Total Southwestern Bell Access Lines	63.3%	62.4%	61.2%	59.5%	57.5%
% of Total SBC Access Lines	29.5%	29.3%	28.8%	28.2%	27.4%
<b>Residential Additional Lines</b>	<b>733</b>	<b>794</b>	<b>879</b>	<b>1,030</b>	<b>1,244</b>
% Growth		8.3%	10.7%	17.2%	20.8%
% of Residential Lines	8.3%	8.8%	9.5%	10.8%	12.6%
% of Residential Line Growth		28.8%	40.7%	52.6%	62.8%
% of Total Southwestern Bell Access Lines	5.8%	6.0%	6.5%	7.2%	8.3%
% of Total SBC Access Lines	2.7%	2.8%	3.0%	3.4%	4.0%
<b>Total Residential</b>	<b>8,790</b>	<b>9,002</b>	<b>9,211</b>	<b>9,498</b>	<b>9,839</b>
% Growth		2.4%	2.3%	3.1%	3.6%
% of Total Southwestern Bell Access Lines	69.1%	68.5%	67.7%	66.8%	65.8%
% of Total SBC Access Lines	32.2%	32.1%	31.9%	31.7%	31.4%
<b>Total Business</b>	<b>3,739</b>	<b>3,951</b>	<b>4,214</b>	<b>4,539</b>	<b>4,918</b>
% Growth		5.7%	6.7%	7.7%	8.3%
% of Total Southwestern Bell Access Lines	29.4%	30.1%	31.0%	31.9%	32.9%
% of Total SBC Access Lines	13.7%	14.1%	14.6%	15.1%	15.7%
<b>Total Public Lines</b>	<b>195</b>	<b>192</b>	<b>187</b>	<b>186</b>	<b>186</b>
% Growth		-1.5%	-2.6%	-0.5%	0.0%
% of Total Southwestern Bell Access Lines	1.5%	1.5%	1.4%	1.3%	1.2%
% of Total SBC Access Lines	0.7%	0.7%	0.6%	0.6%	0.6%
<b>Total Southwestern Bell Access Lines</b>	<b>12,724</b>	<b>13,145</b>	<b>13,612</b>	<b>14,223</b>	<b>14,943</b>
% Growth		3.3%	3.6%	4.5%	5.1%
% of Total SBC Access Lines	46.7%	46.9%	47.1%	47.4%	47.6%

<b>Residential Primary Lines</b>	<b>7,830</b>	<b>7,825</b>	<b>7,857</b>	<b>7,900</b>	<b>7,998</b>
% Growth		-0.1%	0.4%	0.5%	1.2%
% of Total Pacific Bell Access Lines	54.7%	53.5%	52.3%	51.0%	49.6%
% of Total SBC Access Lines	28.7%	27.9%	27.2%	26.3%	25.5%
<b>Residential Additional Lines</b>	<b>1,342</b>	<b>1,472</b>	<b>1,635</b>	<b>1,777</b>	<b>2,031</b>
% Growth		9.7%	11.1%	8.7%	14.3%
% of Residential Lines	14.6%	15.8%	17.2%	18.4%	20.3%
% of Residential Line Growth		104%	84%	77%	72%
% of Total Pacific Bell Access Lines	9.4%	10.1%	10.9%	11.5%	12.6%
% of Total SBC Access Lines	4.9%	5.3%	5.7%	5.9%	6.5%
<b>Total Residential</b>	<b>9,172</b>	<b>9,297</b>	<b>9,492</b>	<b>9,677</b>	<b>10,029</b>
% Growth		1.4%	2.1%	1.9%	3.6%
% of Total Pacific Bell Access Lines	64.1%	63.6%	63.1%	62.5%	62.2%
% of Total SBC Access Lines	33.6%	33.2%	32.8%	32.3%	32.0%
<b>Total Business</b>	<b>4,942</b>	<b>5,120</b>	<b>5,337</b>	<b>5,594</b>	<b>5,879</b>
% Growth		3.6%	4.2%	4.8%	5.1%
% of Total Pacific Bell Access Lines	34.5%	35.0%	35.5%	36.1%	36.5%
% of Total SBC Access Lines	18.1%	18.3%	18.5%	18.7%	18.7%
<b>Total Public Lines</b>	<b>192</b>	<b>200</b>	<b>206</b>	<b>209</b>	<b>211</b>
% Growth		4.2%	3.0%	1.5%	1.0%
% of Total Pacific Bell Access Lines	1.3%	1.4%	1.4%	1.4%	1.3%
% of Total SBC Access Lines	0.7%	0.7%	0.7%	0.7%	0.7%
<b>Total Pacific Bell Access Lines</b>	<b>14,306</b>	<b>14,617</b>	<b>15,035</b>	<b>15,480</b>	<b>16,119</b>
% Growth		2.2%	2.9%	3.0%	4.1%
% of Total SBC Access Lines	52.5%	52.2%	52.0%	51.6%	51.4%



	2019	2018	2017	2016	2015
<b>Residential Primary Lines</b>	<b>157</b>	<b>162</b>	<b>169</b>	<b>174</b>	<b>182</b>
% Growth		3.2%	4.3%	3.0%	4.6%
% of Total Nevada Bell Access Lines	64.1%	63.3%	62.1%	60.6%	59.1%
% of Total SBC Access Lines	0.6%	0.6%	0.6%	0.6%	0.6%
<b>Residential Additional Lines</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>11</b>	<b>14</b>
% Growth		14.3%	12.5%	22.2%	27.3%
% of Residential Lines	4.3%	4.7%	5.1%	5.9%	7.1%
% of Residential Line Growth		17%	13%	29%	27%
% of Total Nevada Bell Access Lines	2.9%	3.1%	3.3%	3.8%	4.5%
% of Total SBC Access Lines	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Residential</b>	<b>164</b>	<b>170</b>	<b>178</b>	<b>185</b>	<b>196</b>
% Growth		3.7%	4.7%	3.9%	5.9%
% of Total Nevada Bell Access Lines	66.9%	66.4%	65.4%	64.5%	63.6%
% of Total SBC Access Lines	0.6%	0.6%	0.6%	0.6%	0.6%
<b>Total Business</b>	<b>76</b>	<b>81</b>	<b>89</b>	<b>97</b>	<b>107</b>
% Growth		6.6%	9.9%	9.0%	10.3%
% of Total Nevada Bell Access Lines	31.0%	31.6%	32.7%	33.8%	34.7%
% of Total SBC Access Lines	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Total Public Lines</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
% Growth		0.0%	0.0%	0.0%	0.0%
% of Total Nevada Bell Access Lines	2.0%	2.0%	1.8%	1.7%	1.6%
% of Total SBC Access Lines	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Nevada Bell Access Lines</b>	<b>245</b>	<b>256</b>	<b>272</b>	<b>287</b>	<b>308</b>
% Growth		4.5%	6.3%	5.5%	7.3%
% of Total SBC Access Lines	0.9%	0.9%	0.9%	1.0%	1.0%

	2019	2018	2017	2016	2015
<b>Residential Primary Lines</b>	<b>16,044</b>	<b>16,195</b>	<b>16,358</b>	<b>16,542</b>	<b>16,775</b>
% Growth		0.9%	1.0%	1.1%	1.4%
% of Total SBC Access Lines	58.8%	57.8%	56.6%	55.2%	53.5%
<b>Residential Additional Lines</b>	<b>2,082</b>	<b>2,274</b>	<b>2,523</b>	<b>2,818</b>	<b>3,289</b>
% Growth		9.2%	10.9%	11.7%	16.7%
% of Residential Lines	11.5%	12.3%	13.4%	14.6%	16.4%
% of Residential Line Growth		56.0%	60.4%	61.6%	66.9%
% of Total SBC Access Lines	7.6%	8.1%	8.7%	9.4%	10.5%
<b>Total Residential</b>	<b>18,126</b>	<b>18,469</b>	<b>18,881</b>	<b>19,360</b>	<b>20,064</b>
% Growth		1.9%	2.2%	2.5%	3.6%
% of Total SBC Access Lines	66.5%	65.9%	65.3%	64.6%	64.0%
<b>Total Business</b>	<b>8,757</b>	<b>9,152</b>	<b>9,640</b>	<b>10,230</b>	<b>10,904</b>
% Growth		4.5%	5.3%	6.1%	6.6%
% of Total SBC Access Lines	32.1%	32.7%	33.3%	34.1%	34.8%
<b>Total Public Lines</b>	<b>392</b>	<b>397</b>	<b>398</b>	<b>400</b>	<b>402</b>
% Growth		1.3%	0.3%	0.5%	0.5%
% of Total SBC Access Lines	1.4%	1.4%	1.4%	1.3%	1.3%
<b>Total SBC Access Lines</b>	<b>27,275</b>	<b>28,018</b>	<b>28,919</b>	<b>29,990</b>	<b>31,370</b>
% Growth		2.7%	3.2%	3.7%	4.6%